

State Treasurer Andrew Sidamon-Eristoff
Treasury and Interdepartmental Testimony
Senate Budget and Appropriations Committee
April 26, 2012

Good morning Chairman Sarlo, Senator Bucco, and members of the Senate Budget and Appropriations Committee. I am pleased to appear before you today to present the Governor's proposed Fiscal 2013 budget for the New Jersey Department of the Treasury and Interdepartmental Accounts.

I am joined today by Robert Peden, Deputy Director of the Office of Management and Budget as well as many Division Directors and other senior staff from the Treasurer's Office. I am also joined by the chief executive officers of some of Treasury's "in-but-not-of" agencies.

Let me start by taking a few moments to speak to the ongoing investigation at the Division of Taxation regarding employees' unauthorized access to co-workers' confidential tax records. Let me emphasize that maintaining the confidentiality of tax information is a fundamental value in revenue administration and the lynchpin of our voluntary compliance system. For that reason, we maintain a comprehensive web of statutory and procedural restrictions and safeguards. The penalties for unauthorized access are appropriately severe and include dismissal. We inform all employees of these rules on initial training, in follow-up training, and each time they access our information systems. Nonetheless, some employees will choose to violate our rules. In this case, the system may be said to have worked: after receiving a tip, our investigators followed up, reviewed the audit trails on our systems, and identified several dozen potential violations involving unauthorized access to co-workers' information. The disciplinary process is now well underway. Four individuals have been dismissed, and one has resigned. The process is not over. Although cold comfort, I can say that, as of now, we have no information that

suggests that any of the incidents involved taxpayers outside the Department, or that any confidential information was leaked or transferred outside the Division.

That serious matter aside, I am pleased to appear before you a second time as you review Governor Christie's proposed Fiscal 13 budget. I understand your focus today is not on the \$32.1 billion budget in its entirety — but rather on the \$2.22 billion in expenditures that will pass through Treasury accounts or pay for the many functions performed by dedicated Treasury personnel in Fiscal 13 and on the State's Interdepartmental accounts.

Treasury's functions are broad in scope, diverse, and often extremely complex. In addition to managing the State's budget, Treasury divisions are responsible for collecting revenue, asset management, public finance, and delivering an array of critical statewide services such as procurement and technology support.

The Governor's Fiscal 13 budget proposal increases the Department of the Treasury's appropriation by \$122.9 million, or 5.9 percent. This increase is largely due to an additional \$147.5 million in general obligation debt service budgeted in the Department.

As you know, this top-level number doesn't distinguish between the majority of Treasury spending that passes through the department's accounts and the amounts dedicated to Treasury's normal operations supported by Direct State Services appropriations.

The Direct State Services appropriations, in turn, include operational funding for the "in-but-not-of" agencies that are housed under Treasury but not under the direct control of the State Treasurer. These include the Board of Public Utilities, the Office of Information Technology, the Office of the State Comptroller, the Public Defender, the Office of Administrative Law and the Garden State Preservation Trust.

Setting aside appropriations for these agencies, the Governor's proposed budget recommends a \$211.5 million General Fund appropriation to support Treasury's core missions and operating divisions, down more than \$12 million from our adjusted appropriation for Fiscal 12. This

does not include programs supported by revolving fund and internal services fund resources, such as Central Motor Pool, Distribution Center, Print Shop, Capital Post Office, Unclaimed Property and the fee supported portion of the Division of Property Management and Construction related to statewide construction activity. In addition, the budget appropriates \$46.5 million to the Division of Pensions and Benefits and \$12.9 million to the Division of Investment from the Pensions and Health Benefits Trust Funds.

Currently, Treasury's work force includes approximately 3,116 full-time employees. Most of these employees — about 2,449 — are supported through the General Fund, while the rest are supported by fee-based or revolving funds. This represents a reduction of 176 positions, or 5.3 percent, from our staffing level of 3,292 when the administration took office and reflects a continuing high level of retirements by long-service employees as well as the impact of our ongoing efforts to achieve greater efficiencies in the delivery of government services.

The Department of the Treasury is proud of its role in supporting and executing Governor Christie's program to improve efficiency and improve government operations. Last year at this time, I outlined some of our ongoing initiatives. This year, I would like to provide a brief update on our progress.

- I am pleased to report that we have made significant progress in implementing the Governor's Performance Budgeting Initiative. For the first time, performance budgeting was integrated into the budget planning process and this year's Budget Summary includes performance targets for 23 State departments and agencies aligned with budgets for core mission areas. As I mentioned in my prior testimony, this is the first time a New Jersey budget document has aligned mission, money and metrics in one place.
- The Division of Taxation, working in consultation with tax practitioners and affected taxpayers, has implemented last year's business tax relief package, including the phase-in of the single

sales factor for the Corporation Business tax and changes to the Gross Income Tax's income and loss netting restrictions. In addition, the Division reorganized its Audit group and successfully deployed a new information technology tool to help identify and prevent refundable credit fraud. Finally, to enhance inter-governmental coordination and revenue collection, the Division executed a Memorandum of Understanding with the Internal Revenue Service on information sharing in joint criminal tax investigations.

- Over the past year Treasury's Division of Pension and Benefits successfully implemented the landmark pension and health benefit reforms that Governor Christie and the Legislature approved last June. As I know you will appreciate, this has been an enormously complicated undertaking, requiring the active participation of a wide range of stakeholders. For instance, the Division supported the new Health Plan Design Committees which, as required by the new law, broadened the range of coverage options for participants in both the State Health Benefits Program and the School Employees Health Benefits Program. Although the new coverage options were available to plan members in last fall's open enrollment period, only a small number of plan members made a switch. We expect this will change gradually as the new, higher contribution rates keyed to workers' income levels phase in over the next several years. Although we project final Fiscal 12 savings of \$1.2 million from workers shifting to lower cost plans, we are projecting that number will rise to \$12.2 million in Fiscal 13 and then to \$34 million in Fiscal 14.
- I am, of course, pleased to report that the State will make its full one-seventh contribution of \$484 million to the pension funds at the end of this fiscal year and has budgeted its full two-sevenths contribution of \$1.07 billion to the funds for Fiscal 13.
- Treasury was proud to work with the Department of Transportation in helping to develop the Governor's Transportation Capital Plan, a

plan that will fund \$1.6 billion in highway and mass transit projects annually over five years. We look forward to working with the Legislature to reauthorize the Transportation Trust Fund in the near future.

- Under the leadership of Treasury's Office of Public Finance, the annual rate of growth in the State's bonded indebtedness has continued to decline, from 4.9 percent in Fiscal 09 to 3.1 percent in Fiscal 11. The Division has also coordinated a series of successful refinancing transactions that have taken advantage of the continuing low interest rate environment. One notable recent success was the Division's management of the \$1.04 billion issue of Cigarette Tax Refunding Bonds earlier this month, which saw several bond rating upgrades and generated present value savings to the State of \$80.5 million.
- Treasury's Division of Purchase of Property has made substantial progress in implementing a multi-faceted procurement reform and modernization initiative, which has involved everything from modernized rules, streamlined forms and processes, and enhanced training to the creation of new interagency partnerships, improved vendor communications, and better information technology. These changes are already delivering tangible results in the form of shorter cycle times, fewer protests being upheld, fewer waivers of advertising, more transparency, and higher customer satisfaction.
- The Division of Revenue continues its migration from labor-intensive, paper-based systems to electronic formats. During the past year, the Division implemented new web-based self-service systems for the State's Uniform Commercial Code (UCC) system and business entity records searching. For the first time, businesses and the general public can file UCC images online and access images of stored legal filings, like certificates of incorporation and formation, in real time. The Division also collaborated with other State agencies to create an enterprise level digital workflow system for customer inquiries and records management. In conjunction

with OIT, the Division also instituted new, more efficient electronic payment services for all State government agencies, including industry-standard credit card processing and automated clearing house services for e-checks and electronic funds transfer.

- The Division of the Lottery enjoyed a boost from the strong interest in the record \$656 million Mega Millions jackpot last month and from our ongoing efforts to expand its retailer network and add 500 new terminals. Sales have increased 4.4 percent so far in this fiscal year.
- The Division of Investment, under the leadership of director Tim Walsh and State Investment Council Chairman Bob Grady, achieved an overall investment return of 18.03 percent in Fiscal 2011, the best result in 13 years and a full one percent higher than the benchmark return for the funds' asset allocation. As of March 31st, the fund had total assets of \$70.68 billion. And through the end of February, it had achieved an overall return of 2.59 percent, as it continues to rebound from a very difficult investing environment last fall.
- Although the Office of Information Technology is in-but-not-of Treasury, I would be remiss if I did not take this opportunity to introduce Steve Emanuel, who has joined New Jersey as our first Chief Information Officer. Steve's arrival, together with a renewed focus within OIT on managing the State's enterprise technology resources and services, heralds a significant reengineering of the way the State makes technology choices and develops enterprise innovation strategies that are driven by mission as well as visible, measurable outcomes.

In closing, I am extremely proud of everything Treasury staff has accomplished, and continue to accomplish, notwithstanding ongoing fiscal and staffing constraints. It's exciting to be leading Treasury during a period of innovative reform and progress toward better

government. I welcome your input and suggestions on how we can make New Jersey government more efficient and effective.

Thank you for your attention and interest. At this time, I would welcome questions from the committee.